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TAGS: [PGOV](#) [PREL](#) [ECON](#) [EFIN](#) [EINV](#) [IZ](#)
SUBJECT: CHALABI OFFERS VIEWS ON IMPROVING IRAQ'S ECONOMY,
THE INA'S PLATFORM OF GOOD GOVERNANCE

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Classified By: Acting Deputy Chief of Mission Gary A. Grappo for reasons 1.4 (b), (d).

¶1. (C) Summary. On October 6, A/DCM Grappo discussed with Iraqi National Alliance (INA) member Ahmed Chalabi the poor state of Iraq's private economy, the INA's campaign platform of improving services and taming corruption, and his opinion about Saudi Arabia and Iran. Chalabi opposed the Amendment to the National Investment Law currently before parliament, and offered ideas to spur foreign and domestic investment in Iraq. He said the Sadrist Trend has moderated its political views but still lacks competent candidates. Chalabi might gain a position in the next government, but his checkered past suggests his own interests will trump any patriotic calling. End Summary.

Indebted Iraq Lacks Private Economy

¶2. (C) Chalabi said the proposed supplemental budget is irresponsible because it is financed almost entirely by debt and unrealistic expectations about revenue. He said electoral politics is pushing the supplemental forward because the Iraqi National Alliance (INA) is afraid PM Maliki will blame them for denying additional money to Iraqi farmers. Chalabi worried that if the Council of Representatives (COR) passes the supplemental and another poor budget in 2010, both the IMF and World Bank will deny the government's request for loans of \$5.5bn and \$1-2bn, respectively.

¶3. (C) Chalabi said Iraq's economy is "entirely socialist" and the bureaucracy is "totally against private enterprise," making Iraq a classic rentier state that gains its wealth only from hydrocarbons. He claimed that Iraq increased its exports of oil above 2m barrels a day only because the Bayji oil refinery mixes fuel oil with its crude, reducing the overall quality. Iraq "crude" is often discounted in the oil markets by as much as 20 percent, said Chalabi, because the poor quality is well known among traders and buyers.

¶4. (C) Asked about the current investment bill the COR is deliberating, Chalabi predicted the law will not work because it falsely assumes foreign investment is eager to flow into the domestic housing sector. (NOTE: If passed, the amendment to the existing investment law would allow foreign land ownership in Iraq for residential housing development. The amendment would create a central land committee, led by the National Investment Commission Chairman, that would identify land designated for sale or lease and determine the terms of remuneration for the controlling ministry. The amendment would not allow foreign entities to engage in long-term land ownership or speculation. End Note.) Instead, Chalabi proposes stronger personal property rights coupled with a government-funded commission that will offer guaranteed subsidized housing loans from Iraqi banks. He noted that the GOI owns 90 percent of Iraq's land--especially the Ministry

of Finance, Ministry of Municipalities and Publics Works, and the Baghdad Mayor's Office--and Iraqi banks hold deposits but make very few loans. The loan-deposit rate is only about 10 percent, he claimed. He further asserted that the government controls more than 90 percent of the country's capital available for financing.

INA to Focus on Services and Anti-Corruption

¶5. (C) The INA will campaign on a platform of anti-corruption and providing services to contrast itself with the current government's failures, Chalabi said. Forcing the corrupt Trade Minister Sudani to resign was a positive step, but QTrade Minister Sudani to resign was a positive step, but Chalabi said he saw Sudani at a social function recently, an indication that these charges are not taken seriously. (COMMENT: Chalabi's emphasis on anti-corruption was ironic given that he remains wanted by a Jordanian court for a 35-year sentence for fraud and embezzlement. End comment.)

¶6. (C) Chalabi warned that the old themes of advancing the Shia faith will not work during the upcoming campaign because the long-oppressed Shia no longer feel their religion is threatened, as was the case in 2005. The INA has learned that the long-term interest of the alliance is to demonstrate it can govern well. Chalabi said the alliance has not yet decided upon internal powersharing or leadership positions.

The Sadrists Have Moderated

¶7. (C) Chalabi said his new coalition partner, the Sadrist Trend, have come to understand the damage they caused Iraq through the Jaysh al-Mahdi (JAM). One example of how the Sadrists have changed is that they have accepted an alliance

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with former archrival the Islamic Supreme Council of Iraq (ISCI). However, the Sadrists will never forgive PM Maliki for "systematically" routing the JAM in 2008 in Basrah, Maysan and Sadr City, he said. When asked whether the Sadrists have capable leaders, Chalabi flatly said "no" and recalled that Sadrists ruined the Heath and Transportation ministries. The Sadrists offshoot Asa'ib Ahl al-Haq (AAH) led by Qais al-Khazali (currently in U.S. detention) and brother Layth al-Khazali unsuccessfully tried to form a competing party, but are now trying to make amends with the Sadrists, Chalabi said. Chalabi also advised that the Sadrists still are not prepared to meet with U.S. Embassy officers. Most would actually want to meet but are fearful of angering Muqtada al-Sadr. After A/DCM emphasized the Embassy's continuing interest in meeting with Sadrist representatives, Chalabi chortled, "Don't worry, you're not missing much."

Outlook on Iran and Saudi Arabia

¶8. (C) Chalabi predicted that the Iranian government is about to ease its position on nuclear enrichment because it wishes to avoid confrontation with the United States. Tehran is largely motivated by the need to loosen economic sanctions that have crippled its domestic industry. Chalabi added that after a series of catastrophic air accidents over the last few years, the Iranian public is increasingly frightened that its domestic airplanes are unable to receive the parts needed to fly safely. He told A/DCM that relations with Saudi Arabia were unlikely to improve in the near term because Riyadh holds out hope that Iraq could once again be "ruled by a Sunni-dominated Army." Chalabi denied that under an INA-led government, relations with Arab states would worsen because the INA and governments like Saudi Arabia share a common enemy--terrorism inspired by takfiris (extremist Muslims claiming others to be non-believers).

¶9. (C) Comment. Since faring remarkably poorly in the 2005 national election, Chalabi has managed to survive through bureaucratic skill and acknowledged intelligence. But he has also tried to ingratiate himself to the Iranian government in the hopes of finding a patron for his political future since he has no domestic political base on which to rely. Iraqi colleagues might utilize him in the next government because of his technocratic and economic insights, but the controversial Chalabi will likely look after his own interests first, not Iraq's. End comment.

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